

# **City of River Rouge, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of River Rouge, Michigan

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# City of River Rouge, Michigan

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**GREGORY  
TERRELL  
& COMPANY**

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor  
and Members of the City Council,  
City of River Rouge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of River Rouge, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Notes I and I6, the City has implemented the reporting provisions of Government Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2008. However, the City did not perform a physical inventory and appraisal of its general capital assets nor did the City implement the provisions requiring the reporting of depreciation expense and accumulated depreciation for general capital assets. The affect the aforementioned would have on assets, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for effects of not performing a physical inventory and appraisal of capital assets and not reporting the depreciation of capital assets for the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects the financial position of the governmental activities of the City of River Rouge, Michigan, as of June 30, 2008, and changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

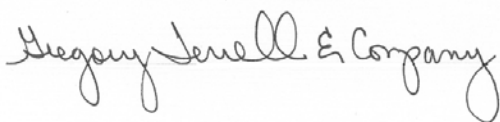
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of River Rouge, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As described in Note 15 to the financial statements, the City has suffered recurring operating deficits in the General Fund and has a significant fund deficit in the General Fund that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 15. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Required Supplemental Information and Other Supplemental Information listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, as described in the fourth paragraph of this report, does not purport to be presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gregory Terrell & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

GREGORY TERRELL & COMPANY  
Certified Public Accountants  
December 29, 2008

# **City of River Rouge, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of River Rouge, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

### **Overview of the Financial Statements**

The City of River Rouge's 2008 annual financial report follows a different format than in previous years. This annual report has been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type activities** - The City charges fees to customers to cover costs of providing water and sewer services.
- **Component units** - The City includes two other entities in its report, the Economic Development Authority and the Downtown Development Authority. Although legally separate, these "component units" are important because the City exercises control over them.

# **City of River Rouge, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short- and long-term financial information.
- Fiduciary funds - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Total fiscal year 2007-2008 General Fund revenues were approximately \$1,328,000 more than fiscal year 2006-2007 revenues. The increase was due primarily to the increase in the pension judgment levy, which was 50 percent greater in the current year.
- State-shared revenue, the City's second largest revenue source, has been on a downward slope since 2000. State-shared revenue is down by approximately \$917,000 from 2000. The City reacted by limiting discretionary spending amounts where possible and delaying the filling of open personnel positions. State-shared revenue accounts for approximately 11 percent of the City's total General Fund revenue.

# City of River Rouge, Michigan

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## Management's Discussion and Analysis (Continued)

- Property taxes are the City's single largest source of revenue, accounting for approximately 70 percent of the General Fund's revenue. The City's taxable value for 2007 was \$348,770,000, which represents an increase of approximately .7 percent from 2006. The City has a unique tax base in which two-thirds of the taxable value is personal property. Personal property is depreciated annually and results in a loss in the General Fund tax revenue of approximately \$300,000 annually without any additions. The City's operating millage rate is currently 20,000 mills; however, in the future the millage rate could be rolled back as required by the Headlee Amendment and Proposal A. Through Proposal A, growth on existing taxable value is limited to the Consumer Price Index or 5 percent, whichever is less.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.



# City of River Rouge, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008, in thousands of dollars (comparable information as of 2007 is not available):

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 6,365	\$ 2,903	\$ 9,268
Noncurrent assets	<u>15,885</u>	<u>46,880</u>	<u>62,765</u>
Total assets	22,250	49,783	72,033
<b>Liabilities</b>			
Current liabilities	8,691	2,163	10,854
Long-term liabilities	<u>9,765</u>	<u>15,730</u>	<u>25,495</u>
Total liabilities	<u>18,456</u>	<u>17,893</u>	<u>36,349</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	15,547	25,433	40,980
Restricted	969	4,468	5,437
Unrestricted (deficit)	<u>(12,722)</u>	<u>1,989</u>	<u>(10,733)</u>
Total net assets	<u>\$ 3,794</u>	<u>\$ 31,890</u>	<u>\$ 35,684</u>

The City has combined net assets of approximately \$35.7 million at June 30, 2008. Governmental activities total \$3.8 million of the total, which is approximately 11 percent of the total net assets. Business-type activities comprise approximately \$31.9 million of the total net assets.

Of the total combined net assets, approximately \$41.0 million is invested in capital assets, net of related debt, while \$5.4 million is restricted for various purposes and cannot be used for general operations.

# City of River Rouge, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets for the year ended June 30, 2008 in thousands of dollars (comparable information as of 2007 is not available):

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 1,669	\$ 3,497	\$ 5,166
Operating grants and contributions	1,403	-	1,403
General revenue:			
Property taxes	10,386	1,761	12,147
State-shared revenue	1,483	-	1,483
Unrestricted investment earnings	287	62	349
Miscellaneous	742	-	742
Total revenue	15,970	5,320	21,290
<b>Program Expenses</b>			
General government	6,577	-	6,577
Public safety	5,057	-	5,057
Public works	2,667	-	2,667
Community and economic development	365	-	365
Recreation and culture	453	-	453
Interest on long-term debt	322	-	322
Water and sewer	-	4,030	4,030
Total program expenses	15,441	4,030	19,471
<b>Change in Net Assets</b>	<b>\$ 529</b>	<b>\$ 1,290</b>	<b>\$ 1,819</b>

Total net assets increased approximately \$1.8 million. However, when looking at the activities separately, you can see that business-type net assets increased by \$1.3 million, while governmental activities increased \$.5 million.

# **City of River Rouge, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenue totaled approximately \$16 million with the largest revenues provided by property taxes, which represents 65 percent of the total. General government expenditures are the most significant amongst the governmental activities, making up 43 percent of total governmental expenditures. The largest expenditures in the general government are insurance and pension costs. These costs comprise 64 percent of total general government expenditures. Public safety is the next most significant expenditure program, making up approximately 33 percent of governmental activities. Public safety activities include not only police and fire services, but code enforcement as well. While public safety activities brought in approximately \$.9 million of revenue from charges from services and various grants, the function relied on general revenues of the City to support the majority of its operations.

### **Business-type Activities**

The City's business-type activities consist solely of the Water and Sewer Fund. The City provides water to residents from the Detroit water system. The business-type activities continue to experience operating losses. The Water and Sewer Fund incurred an operating loss of approximately \$183,000 in 2008 as compared to an operating loss of \$597,000 in 2007. The deficit is primarily a result of the operating, maintenance, and replacement costs associated with the running of the EPA-mandated CSO basin. The annual operating costs are approximately \$500,000 per year and are being addressed over time through annual rate increases. The City Council passed an ordinance in the mid 1990s requiring the rates to be increased annually in the same percentage as the City of Detroit increases its charges for the purchase of water and sewage treatment

In 2003, the City defaulted on its contractual obligation with Wayne County to pay the debt service on the CSO basin bonds. As a result, a judgment was issued by the court requiring the City to levy the annual debt service cost over the life of the bonds. Due to property tax collections, and other nonoperating revenues and expenses, the Water and Sewer Fund displays a positive change in net assets.

### **The City's Funds**

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's major funds for 2008 include the General Fund and the Water and Sewer Fund (a proprietary fund).

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$4.9 million in 2008, compared to \$3.2 million in 2007, and represent approximately 36 percent of the total General Fund expenditures.

# City of River Rouge, Michigan

## Management's Discussion and Analysis (Continued)

Below is a five-year trend of the General Fund activity and the end of year unreserved fund balance:

	2004	2005	2006	2007	2008
Revenue	\$ 11,609,104	\$ 11,918,462	\$ 12,490,728	\$ 12,325,031	\$ 13,653,332
Expenditures	13,669,549	12,389,817	12,201,311	12,209,479	13,266,630
Other financing sources (uses)	1,943,019	6,958	(53,795)	160,291	(115,712)
Change in fund balance	\$ (117,426)	\$ (464,397)	\$ 235,622	\$ 275,843	\$ 270,990
Total fund balance of the General Fund	\$ (1,982,322)	\$ (2,446,719)	\$ (2,211,097)	\$ (1,935,254)	\$ (1,664,264)
Reserved for prepaids and other	1,058,186	690,065	917,748	662,121	731,142
Unreserved fund balance	\$ (3,040,508)	\$ (3,136,784)	\$ (3,128,845)	\$ (2,597,375)	\$ (2,395,406)
Unreserved fund balance as % of revenue	-26%	-26%	-25%	-21%	-18%

Over the past five years, the City has continued to make improvements in its General Fund fund balance. In the current year, the City had a positive change in fund balance of \$271,000 as compared to a decrease in fund balance of \$117,000 in 2004. In addition, the unreserved fund balance as a percentage of revenue has increased from a negative 26 percent to a negative 18 percent.

### **Capital Assets and Debt Administration**

The City's investment in capital assets continued to be conservative in response to the reduction in revenue and increased health care and other costs, making purchases only when necessary. During the year, the City increased its obligation for installment purchase agreements by \$223,000. In addition, the City issued \$809,000 additional debt related to the Downriver Sewage Disposal and refunded its \$16.3 million CSO Revenue Bonds for \$9.935 million.

### **Economic Factors and Next Year's Budgets and Rates**

The future remains challenging for the City of River Rouge. The City's budget for next year will show the effects of cost cutting needed to maintain a positive fund balance in the General Fund. Looking ahead, the increased cost to fund our pension obligation is going to be a major challenge. Major upcoming realignments in the auto industry coupled with a recessionary period of the economic activity could pose a serious threat to the financial well being of the City of River Rouge.

The City, in the upcoming year, will recognize the cost of retiree health care and other nonpension postretirement benefits over the working life of the employee, rather than at the time the healthcare premiums are paid. A new Governmental Accounting Standards Board requirement (GASB 45) will require the City to calculate and report an actuarial determined annual liability for providing postretirement benefits other than pension in the future. A strategy will need to be developed to properly recognize and fund the financial burden of commitments made to current and future retirees.

# **City of River Rouge, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office at (313) 842-5604 or at 10600 West Jefferson Ave., River Rouge, MI 48218.

# City of River Rouge, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 4,711,486	\$ 1,445,415	\$ 6,156,901	\$ 236,654
Receivables - Net (Note 4)	161,685	1,457,130	1,618,815	8,638
Due from primary government	-	-	-	5,385
Due from other governmental units	761,166	-	761,166	-
Prepaid costs and other assets	731,142	-	731,142	-
Restricted assets (Note 8)	-	4,467,474	4,467,474	-
Nondepreciable capital assets - Net (Note 5)	3,020,084	2,458,065	5,478,149	-
Depreciable capital assets - Net (Note 5)	12,864,826	39,954,833	52,819,659	-
<b>Total assets</b>	<b>22,250,389</b>	<b>49,782,917</b>	<b>72,033,306</b>	<b>250,677</b>
<b>Liabilities</b>				
Accounts payable	1,466,130	722,528	2,188,658	3,850
Accrued and other liabilities	723,067	84,472	807,539	13,144
Due to other governmental units	4,864,416	-	4,864,416	-
Due to component unit	5,385	-	5,385	-
Noncurrent liabilities:				
Debt obligations due within one year (Note 7)	1,632,344	1,356,505	2,988,849	5,870
Compensated absences - Net of current portion (Note 7)	930,968	53,135	984,103	-
Debt obligations due in more than one year (Note 7)	8,833,699	15,676,482	24,510,181	64,044
<b>Total liabilities</b>	<b>18,456,009</b>	<b>17,893,122</b>	<b>36,349,131</b>	<b>86,908</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	15,547,391	25,433,046	40,980,437	-
Restricted:				
Drug law enforcement	277,644	-	277,644	-
Library	29,564	-	29,564	-
Refuse	662,064	-	662,064	-
Water and sewer debt service	-	4,467,474	4,467,474	-
Unrestricted	(12,722,283)	1,989,275	(10,733,008)	163,769
<b>Total net assets</b>	<b>\$ 3,794,380</b>	<b>\$ 31,889,795</b>	<b>\$ 35,684,175</b>	<b>\$ 163,769</b>

# City of River Rouge, Michigan

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Functions/Programs</b>			
Primary government:			
Governmental activities:			
General government	\$ 6,576,653	\$ 1,001,766	\$ 251,905
Public safety	5,057,317	666,811	215,961
Public works	2,667,201	-	532,255
Community and economic development	365,194	-	368,695
Recreation and culture	453,199	-	34,342
Interest on long-term debt	321,834	-	-
Total governmental activities	15,441,398	1,668,577	1,403,158
Business-type activities - Water and sewer	4,029,779	3,496,832	-
Total primary government	<u><b>\$ 19,471,177</b></u>	<u><b>\$ 5,165,409</b></u>	<u><b>\$ 1,403,158</b></u>
Component units:			
Economic Development Corporation	\$ 351,189	\$ 312,783	\$ -
Downtown Development Authority	111,783	-	-
Total component units	<u><b>\$ 462,972</b></u>	<u><b>\$ 312,783</b></u>	<u><b>\$ -</b></u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets</b> - Beginning of year			
<b>Net Assets</b> - End of year			

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (5,322,982)	\$ -	\$ (5,322,982)	\$ -
(4,174,545)	-	(4,174,545)	-
(2,134,946)	-	(2,134,946)	-
3,501	-	3,501	-
(418,857)	-	(418,857)	-
(321,834)	-	(321,834)	-
(12,369,663)	-	(12,369,663)	-
-	(532,947)	(532,947)	-
(12,369,663)	(532,947)	(12,902,610)	-
(38,406)	-	(38,406)	(38,406)
(111,783)	-	(111,783)	(111,783)
(150,189)	-	(150,189)	(150,189)
10,386,251	1,760,525	12,146,776	29,138
1,483,000	-	1,483,000	-
286,923	62,228	349,151	3,539
741,990	-	741,990	-
12,898,164	1,822,753	14,720,917	32,677
528,501	1,289,806	1,818,307	(117,512)
3,265,879	30,599,989	33,865,868	281,281
<b>\$ 3,794,380</b>	<b>\$ 31,889,795</b>	<b>\$ 35,684,175</b>	<b>\$ 163,769</b>



# City of River Rouge, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 3,445,660	\$ 1,265,826	\$ 4,711,486
Receivables - Net (Note 4):			
Taxes	14,937	-	14,937
Other	141,611	-	141,611
Accrued interest	5,137	-	5,137
Due from other funds (Note 6)	195,208	-	195,208
Due from other governmental units	633,099	128,067	761,166
Prepaid costs and other assets	731,142	-	731,142
Total assets	<u>\$ 5,166,794</u>	<u>\$ 1,393,893</u>	6,560,687
<b>Liabilities and Fund Balances (Deficit)</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,250,302	\$ 215,828	\$ 1,466,130
Due to other funds (Note 6)	-	195,208	195,208
Due to other governmental units	4,864,416	-	4,864,416
Due to component units	5,385	-	5,385
Accrued and other liabilities	667,037	-	667,037
Deferred revenue (Note 4)	43,918	58,390	102,308
Total liabilities	6,831,058	469,426	7,300,484
<b>Fund Balances (Deficit)</b>			
Reserved for prepaid costs and other assets	731,142	-	731,142
Unreserved, reported in:			
General Fund	(2,395,406)	-	(2,395,406)
Special Revenue Funds	-	924,467	924,467
Total fund balances (deficit)	<u>(1,664,264)</u>	<u>924,467</u>	<u>(739,797)</u>
Total liabilities and fund balances (deficit)	<u>\$ 5,166,794</u>	<u>\$ 1,393,893</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			15,884,910
Other receivables are expected to be collected over several years and are not available to pay for current year expenditures (net of allowances)			102,308
Accrued interest on long-term debt is not included in the governmental funds but is included in the government-wide statements			(56,030)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:			
Compensated absences			(930,968)
Long-term debt and accrued interest			<u>(10,466,043)</u>
Net assets of governmental activities			<u>\$ 3,794,380</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of River Rouge, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 9,496,536	\$ 889,715	\$ 10,386,251
Licenses and permits	633,421	-	633,421
Federal sources	22,480	404,376	426,856
State sources	1,487,666	657,635	2,145,301
Charges for services	368,345	-	368,345
Fines and forfeitures	666,811	-	666,811
Interest	236,083	50,840	286,923
Other	741,990	3,076	745,066
Total revenue	13,653,332	2,005,642	15,658,974
<b>Expenditures</b>			
General government	6,612,482	-	6,612,482
Public safety	4,884,424	171,913	5,056,337
Public works	617,779	1,901,901	2,519,680
Code enforcement	246,013	-	246,013
Recreation and culture	364,106	240,729	604,835
Community and economic development	88,029	316,017	404,046
Debt service	453,797	40,000	493,797
Total expenditures	13,266,630	2,670,560	15,937,190
<b>Excess of Revenue Over (Under)</b>			
Expenditures	386,702	(664,918)	(278,216)
<b>Other Financing Sources (Uses)</b>			
Issuance of capital lease obligations	21,959	201,000	222,959
Transfers in from other funds (Note 6)	-	139,153	139,153
Transfers out to other funds (Note 6)	(137,671)	(1,482)	(139,153)
Total other financing sources (uses)	(115,712)	338,671	222,959
<b>Net Change in Fund Balances</b>	270,990	(326,247)	(55,257)
<b>Fund Balances (Deficit) - Beginning of year</b>	(1,935,254)	1,250,714	(684,540)
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ (1,664,264)</u>	<u>\$ 924,467</u>	<u>\$ (739,797)</u>

# City of River Rouge, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** **\$ (55,257)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	598,259
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	102,308
Repayment of bond principal and other long-term liabilities is an expenditure in the governmental funds, but not in the statement of activities	227,993
Proceeds from the issuance of debt is recorded as other financing resources in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(222,959)
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	93,570
Decrease in the self-insurance liability is recorded in the governmental fund when payable, not when an estimated liability is present	107,000
Increase in net pension obligation is recorded in the governmental fund when payable, not when an estimated liability is present	(266,383)
Accrued interest is not reported in the funds	<u>(56,030)</u>

**Change in Net Assets of Governmental Activities** **\$ 528,501**

# City of River Rouge, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise - Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and investments	\$ 1,445,415
Receivables - Customer	<u>1,457,130</u>
Total current assets	2,902,545
Noncurrent assets:	
Restricted assets (Note 8)	4,467,474
Capital assets (Note 5)	<u>42,412,898</u>
Total assets	49,782,917
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	722,528
Accrued and other liabilities	84,472
Current portion of long-term debt (Note 7)	<u>1,356,505</u>
Total current liabilities	2,163,505
Noncurrent liabilities:	
Compensated absences (Note 7)	53,135
Long-term debt - Net of current portion (Note 7)	<u>15,676,482</u>
Total noncurrent liabilities	<u>15,729,617</u>
Total liabilities	<u>17,893,122</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	25,433,046
Unrestricted	<u>6,456,749</u>
Total net assets	<u><u>\$ 31,889,795</u></u>

# City of River Rouge, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise - Water and Sewer Fund
<b>Operating Revenue - Charges for services</b>	\$ 3,496,832
<b>Operating Expenses</b>	
Cost of water	413,355
Cost of sewage disposal	475,841
Operation and maintenance	1,850,546
Depreciation	940,010
Total operating expenses	3,679,752
<b>Operating Loss</b>	(182,920)
<b>Nonoperating Revenue (Expense)</b>	
Property taxes	1,760,525
Interest income	62,228
Interest expense	(350,027)
Total nonoperating revenue	1,472,726
<b>Change in Net Assets</b>	1,289,806
<b>Net Assets - Beginning of year, as restated (Note 16)</b>	30,599,989
<b>Net Assets - End of year</b>	<b>\$ 31,889,795</b>

# City of River Rouge, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 3,816,756
Payments to suppliers	(2,766,301)
Payments to employees	(381,861)
Net cash provided by operating activities	668,594
<b>Cash Flows from Capital and Related Financing Activities</b>	
Collections of property taxes	1,957,028
Decrease of restricted assets with Wayne County	285,746
Purchase of capital assets	(1,562,305)
Principal and interest paid on capital debt	(719,891)
Net cash used in capital and related financing activities	(39,422)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	62,228
<b>Net Increase in Cash and Cash Equivalents</b>	691,400
<b>Cash and Cash Equivalents - Beginning of year</b>	754,015
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 1,445,415</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (182,920)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	940,010
Changes in assets and liabilities:	
Receivables	319,924
Accounts payable	(289,271)
Accrued and other liabilities	(119,149)
Net cash provided by operating activities	<u><u>\$ 668,594</u></u>

# City of River Rouge, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

	Agency Funds	Trust Fund - Retirement Systems	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 261,586	\$ 2,161,342	\$ 2,422,928
Investments:			
Corporate stock	-	23,300,112	23,300,112
Mutual funds	-	1,106,960	1,106,960
Corporate bonds	-	3,348,286	3,348,286
International bonds	-	270,753	270,753
U.S. government agency bonds	-	2,589,767	2,589,767
Mortgage and asset-backed securities	-	1,501,790	1,501,790
Due from primary government	-	24,161	24,161
Accrued interest receivable	-	63,672	63,672
Total assets	261,586	34,366,843	34,628,429
<b>Liabilities</b>			
Accounts payable	168,776	-	168,776
Due to primary government	19,036	-	19,036
Due to other governmental units	11,701	-	11,701
Due to brokers	-	54,129	54,129
Deposits and other liabilities	62,073	-	62,073
Total liabilities	261,586	54,129	315,715
<b>Net Assets - Reserved for</b>			
retirement funds	\$ -	\$ 34,312,714	\$ 34,312,714

# City of River Rouge, Michigan

## Fiduciary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Trust Funds - Retirement Systems
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 720,030
Net decrease in fair value of investments	(3,703,445)
Less investment expenses	(406,937)
Other	1,424
Net investment income	(3,388,928)
Contributions:	
Employer	2,640,527
Employees	200,575
Total contributions	2,841,102
Total additions	(547,826)
<b>Deductions</b>	
Benefit payments	5,018,734
Administrative expenses	86,361
Total deductions	5,105,095
<b>Net Change in Net Assets</b>	(5,652,921)
<b>Net Assets</b> - Beginning of year	39,965,635
<b>Net Assets</b> - End of year	<u><u>\$ 34,312,714</u></u>



# City of River Rouge, Michigan

## Component Units Combining Statement of Net Assets June 30, 2008

	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets</b>			
Cash and investments	\$ 189,829	\$ 46,825	\$ 236,654
Accounts receivable	8,638	-	8,638
Due from primary government	5,385	-	5,385
Total assets	203,852	46,825	250,677
<b>Liabilities</b>			
Accounts payable	-	3,850	3,850
Accrued and other liabilities	13,144	-	13,144
Debt obligations due within one year (Note 7)	5,870	-	5,870
Debt obligations due in more than one year (Note 7)	64,044	-	64,044
Total liabilities	83,058	3,850	86,908
<b>Net Assets - Unrestricted</b>	<b>\$ 120,794</b>	<b>\$ 42,975</b>	<b>\$ 163,769</b>

# City of River Rouge, Michigan

## Component Units Combining Statement of Activities Year Ended June 30, 2008

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Economic Development Corporation	Downtown Development Authority	Total
Economic Development Corporation:					
Community and economic development	\$ 345,690	\$ 312,783	\$ (32,907)	\$ -	\$ (32,907)
Interest on long-term debt	5,499	-	(5,499)	-	(5,499)
Total Economic Development Corporation	351,189	312,783	(38,406)	-	(38,406)
Downtown Development Authority	111,783	-	-	(111,783)	(111,783)
Total component units	<u>\$ 462,972</u>	<u>\$ 312,783</u>	(38,406)	(111,783)	(150,189)
<b>General Revenues</b>					
Property taxes			-	29,138	29,138
Interest revenue			1,715	1,824	3,539
<b>Change in Net Assets</b>			(36,691)	(80,821)	(117,512)
<b>Net Assets - Beginning of year</b>			157,485	123,796	281,281
<b>Net Assets - End of year</b>			<u>\$ 120,794</u>	<u>\$ 42,975</u>	<u>\$ 163,769</u>

# **City of River Rouge, Michigan**

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## **Notes to Financial Statements June 30, 2008**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of River Rouge, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of River Rouge, Michigan:

#### **Reporting Entity**

The City is governed by an elected six-member council and an elected mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Discretely Presented Component Units**

The Economic Development Corporation (the EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council. A complete financial report can be obtained by contacting the city clerk at 10600 W. Jefferson Avenue, River Rouge, Michigan 48218.

The Downtown Development Authority (the DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is appointed by the mayor with the approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. A separate financial report for the DDA is not available.

The City has excluded the Housing Commission from this report as a component unit because the City does not exercise substantial oversight responsibility. The Housing Commission's financial statements have been issued under separate cover. The Housing Commission reimburses the City for healthcare coverage. The Housing Commission has outstanding liabilities to the General Fund in the amount of \$24,574 for healthcare reimbursement.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports the following fiduciary activities:

**Trust and Agency Fund** - The Trust and Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments, or other funds. These include the Pension Retirement Systems Funds and the Agency Fund. The Pension Retirement Systems Funds are accounted for in the same manner as proprietary funds. The 26<sup>th</sup> District Court Division I and Tax Collection Funds are Agency Funds and are custodial in nature (assets equal liabilities).

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) and the cost of infrastructure as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Taxes**

Property taxes are levied on each July 1 and December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2007 tax is levied and collectible on July 1 and December 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2007 taxable valuation of the City totaled \$348.8 million (a portion of which is abated and a portion of which is captured by the EDC and the DDA). Taxes were levied as follows:

Purpose	Date Levied	Millage Rate	Revenue (Net of DDA Capture)
General operating	July 1	20.0000	\$ 6,808,475
Rubbish	July 1	2.0000	684,405
E.D.C. operating	July 1	0.1434	49,177
W.O.L.F.	July 1	0.6000	205,310
EPA judgment	December 1	1.2500	430,982
CSO judgement	December 1	3.2500	1,120,576
Employees' pension judgment	December 1	3.7000	1,271,709

### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Real Estate Inventory** - Real estate inventory is held for resale and is valued at the lower of cost or market.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, pumping station, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, and alleys	30 years
Water and sewer mains	50 years
Pumping station	3 to 50 years
Buildings and improvements	15 to 50 years
Vehicles	4 years
Machinery and equipment	5 to 15 years

**Significant Customers** - The City has two significant customers, U.S. Steel Corporation and Detroit Edison Company, that, when combined, represented approximately 68 percent of property tax revenue and 49 percent of water and sewage disposal revenue for the year ended June 30, 2008.

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at June 30, 2007	\$ (477,333)
Current year building permit revenue	404,188
Related expenses:	
Direct costs	281,347
Estimated indirect costs	<u>199,700</u>
Current year shortfall	<u>(76,859)</u>
Cumulative shortfall at June 30, 2008	<u><u>\$ (554,192)</u></u>

**Fund Deficits** - The City has a deficit of \$1,664,264 in the General Fund. The City has adopted a formal deficit reduction plan. See Note 15 for further discussion.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

### **Note 3 - Deposits and Investments (Continued)**

The City has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's and Police and Fire Retirement System cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

**City** - The City does not have a deposit policy for custodial credit risk. At year end, the City had \$6,336,833 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the component units had \$254,382 of bank deposits, of which \$101,468 was uninsured and uncollateralized.

**General Employees' Retirement System** - The General Employees' Retirement System does not have a deposit policy for custodial credit risk. At year end, the system had \$1,017,951 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The General Employees' Retirement System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the General Employees' Retirement System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System** - The PFRS does not have a deposit policy for custodial credit risk. At year end, the system had \$1,056,860 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The PFRS believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the PFRS evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City had no investment securities which were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

**City** - The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City did not have investments subject to interest rate risk.

**General Employees' Retirement System** - The General Employees' Retirement System investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 614,582	9.82
Corporate securities	422,492	7.94
Federal Home Loan Mortgage Corp	719,756	27.71
Mutual funds	1,106,960	n/a

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System** - The Police and Fire Retirement System investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities (pension)	\$ 1,975,185	7.59
Corporate securities (pension)	2,925,794	14.07
Federal Home Loan Mortgage Corp	782,035	16.88

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

**City** - The City has no investment policy that would further limit its investment choices. As of year end, the City did not have investments subject to credit risk.

**General Retirement System** - The General Employees' Retirement System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate securities	\$ 34,438	AAA	S&P
Corporate securities	70,639	AA	S&P
Corporate securities	37,551	AA-	S&P
Corporate securities	104,378	A+	S&P
Corporate securities	105,160	A	S&P
Corporate securities	70,326	BBB+	S&P

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

**Police and Fire Retirement System** - The Police and Fire Retirement System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate securities (pension)	\$ 26,850	AAA	S&P
Corporate securities (pension)	100,556	AA	S&P
Corporate securities (pension)	410,938	AA-	S&P
Corporate securities (pension)	403,861	A+	S&P
Corporate securities (pension)	173,809	A	S&P
Corporate securities (pension)	802,124	A-	S&P
Corporate securities (pension)	172,031	BBB -	S&P
Corporate securities (pension)	279,669	BBB	S&P
Corporate securities (pension)	469,425	BBB+	S&P
Corporate securities (pension)	86,531	NR	N/A

#### Concentration of Credit Risk

**City** - The City places no limit on the amount it may invest in any one issuer. No more than 5 percent of the City's investments are invested in any one issuer.

**General Employees' Retirement System** - The General Employees' Retirement System places no limit on the amount it may invest in any one issuer. No more than 5 percent of the General Employees' Retirement System investments are invested in any one issuer.

**Police and Fire Retirement System** - The Police and Fire Retirement System places no limit on the amount it may invest in any one issuer. No more than 5 percent of the Police and Fire Retirement System investments are invested in any one issuer.

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water and Sewer Fund	Nonmajor and Other Funds	Total
Receivables:				
Taxes	\$ 41,807	\$ -	\$ -	\$ 41,807
Accounts	-	1,457,130	-	1,457,130
Intergovernmental	633,099	-	128,067	761,166
Interest and other	146,748	-	-	146,748
Less allowance for uncollectibles	(26,870)	-	-	(26,870)
Net receivables	<u>\$ 794,784</u>	<u>\$ 1,457,130</u>	<u>\$ 128,067</u>	<u>\$ 2,379,981</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Ecorse receivable	\$ 43,288	\$ -	\$ 43,288
Grants receivable	59,020	-	59,020
Total	<u>\$ 102,308</u>	<u>\$ -</u>	<u>\$ 102,308</u>

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 3,020,084	\$ -	\$ -	\$ 3,020,084
Capital assets being depreciated:				
Roads, sidewalks, and alleys	2,489,212	129,425	-	2,618,637
Buildings and improvements	5,154,263	5,950	-	5,160,213
Machinery and equipment	<u>4,623,092</u>	<u>462,884</u>	<u>-</u>	<u>5,085,976</u>
Total capital assets being depreciated	<u>12,266,567</u>	<u>598,259</u>	<u>-</u>	<u>12,864,826</u>
Total capital assets	<u>\$ 15,286,651</u>	<u>\$ 598,259</u>	<u>\$ -</u>	<u>\$ 15,884,910</u>



# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Prior Period Adjustment (Note 16)	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 150,378	\$ -	\$ -	\$ -	\$ 150,378
Construction in progress	238,000	645,000	1,424,687	-	2,307,687
Total capital assets not being depreciated	388,378	645,000	1,424,687	-	2,458,065
Capital assets being depreciated:					
Machinery and equipment	1,012,098	-	-	-	1,012,098
Vehicles	355,877	-	-	-	355,877
Pumping station	1,530,802	-	-	-	1,530,802
Water and sewer mains and basins	47,671,740	-	137,618	-	47,809,358
Total capital assets being depreciated	50,570,517	-	137,618	-	50,708,135
Accumulated depreciation:					
Machinery and equipment	966,608	-	13,352	-	979,960
Vehicles	355,877	-	-	-	355,877
Pumping station	1,527,003	-	155	-	1,527,158
Water and sewer mains and basins	6,963,804	-	926,503	-	7,890,307
Total accumulated depreciation	9,813,292	-	940,010	-	10,753,302
Net capital assets being depreciated	40,757,225	-	(802,392)	-	39,954,833
Net capital assets	\$ 41,145,603	\$ 645,000	\$ 622,295	\$ -	\$ 42,412,898

Depreciation expense was charged to programs of the primary government as follows:

Business-type activities - Water and sewer \$ 940,010

**Construction Commitments** - The City has no active construction projects at year end.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

#### Due to/from Other Funds

Fund Due To	Fund Due From	Amount
Nonmajor governmental fund - Local Streets	Major fund - General Fund	\$ 12,204
Nonmajor governmental fund - CDBG	Major fund - General Fund	<u>183,004</u>
	Total primary government	<u><u>\$ 195,208</u></u>

#### Due to/from Primary Government and Component Units

Receivable Fund	Payable Fund	Amount
Major fund - General Fund	Economic Development Corporation	<u><u>\$ 5,385</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred From	Fund Transferred To	Amount
Major governmental fund - General Fund	Nonmajor governmental fund - Major Street	\$ 9,602 [1]
	Nonmajor governmental fund - Local Street	100,902 [1]
	Nonmajor governmental fund - Grant Fund	<u>27,167 [1]</u>
	Total General Fund	<u><u>\$ 137,671</u></u>
Nonmajor governmental fund - Major Streets	Nonmajor governmental fund - Local Streets	<u><u>\$ 1,482 [2]</u></u>

[1] - Transfer of operating subsidy

[2] - Transfer made under State of Michigan Public Act 51 for local street projects

### **Note 7 - Long-term Debt**

The City issues bonds to provide for the acquisition and construction of major capital facilities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. County contractual agreements are general obligations of the government and pledge the full faith and credit of the City. Other long-term obligations include capital lease obligations, compensated absences, claims and judgments, and certain risk liabilities.

**Future Revenues Pledge for Debt Payments** - The below business-type activity county contractual agreements to the County are the result of the County issuing bonds on the City's behalf. The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the downriver sewage disposal system and CSO basin. The remaining principal and interest to be paid on the bonds is \$15,319,991. During the current year, net revenues of the system were \$757,090 and property tax collections were \$1,760,525, compared to the annual debt requirements of \$217,917.

In addition, the City has pledged its state-shared revenues to repay the below 2002 Fiscal Stabilization Bonds and State Revolving Fund Loan-CSO. Proceeds from the bonds were used to finance prior years' operating expenses of the General Fund and to help finance the construction of the Water and Sewer CSO basin. The bonds are payable solely from state-shared revenue. The remaining principal and interest to be paid on the bonds are \$10,575,544 and \$3,997,853 for the 2002 Fiscal Stabilization Bonds and the State Revolving Fund, respectively. During the current year, state-shared revenue was \$1,483,000, compared to annual debt requirements of \$140,000 and \$280,000 for the 2002 Fiscal Stabilization Bonds and the State Revolving Fund, respectively.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
<b>Governmental Activities</b>							
<u>Revenue bonds</u>							
2002 Fiscal Stabilization Bonds							
Amount of issue: \$6,805,000	2.70% -	\$140,000 -					
Maturing through 2033	5.00%	\$410,000	\$ 6,275,000	\$ -	\$ (140,000)	\$ 6,135,000	\$ 145,000
<u>Other governmental obligations</u>							
Installment purchase agreement - Contract issued in 2007 for John Deere tractor							
Amount of issue: \$51,707		\$6,824 -					
Maturing through 2012	5.75%	\$11,180	47,942	-	(9,413)	38,529	9,968
Installment purchase agreement - Contract issued in 2007 for fire rescue vehicle							
Amount of issue: \$184,431	5.03% -	\$37,354 -					
Maturing through 2011	5.75%	\$40,923	154,611	-	(37,354)	117,257	37,277
Installment purchase agreement - Contract issued in 2008 for a street sweeper							
Amount of issue: \$201,000		\$29,051 -					
Maturing through 2013	5.03%	\$40,000	-	201,000	(40,000)	161,000	29,051
Installment purchase agreement - Contract issued in 2008 for a tractor							
Amount of issue: \$21,959		\$1,226 -					
Maturing through 2012	7.00%	\$5,841	-	21,959	(1,226)	20,733	5,080
<u>Accumulated benefits, insurance, and other</u>							
Homeland Security Special Refund Payable (Legal Judgment). To be paid \$200,000 per year, 0% interest, through a reduction in property tax bills.			-	1,200,000	-	1,200,000	200,000
Employee compensated absences			1,024,538	-	(93,570)	930,968	930,968
Net pension obligation:							
General Employees' Retirement System			1,188,180	1,267,954	(1,197,844)	1,258,290	-
Police and Fire Retirement System			1,063,961	1,275,067	(1,078,794)	1,260,234	-
Estimated insurance claims -							
General liability			382,000	-	(107,000)	275,000	275,000
Total governmental activities			\$ 10,136,232	\$ 3,965,980	\$ (2,705,201)	\$ 11,397,011	\$ 1,632,344

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
<b>Business-type Activities</b>							
<u>County contractual agreements</u>							
Downriver Sewage Disposal System							
Bonds - Series A							
Amount of issue: \$80,600		\$8,000 -					
Maturing through 2013	7.00%	\$13,000	\$ 73,000	\$ -	\$ (8,000)	\$ 65,000	9,000
Downriver State Revolving Fund Loan							
Amount of issue: \$3,832,769	1.625% -	\$33,685 -					
Maturing through 2028	5.25%	\$247,250	2,493,720	586,816	(188,737)	2,891,799	211,778
Downriver State Revolving Fund Loan							
Amount of issue: \$247,104		\$10,727 -	238,000	9,104	(21,180)	225,924	10,727
Maturing through 2027	1.625%	\$14,337					
2007 D Capital Improvements Bonds							
Amount of issue: \$213,280		\$6,448 -					
Maturing through 2029	4.96%	\$15,624	-	213,280	-	213,280	-
Wayne Country 2007B CSO Refunding							
Bonds							
Amount of issue: \$9,935,000	4.25% -	\$55,000 -					
Maturing through 2017	5.75%	\$1,215,000	-	9,935,000	-	9,935,000	840,000
Plus unamortized bond discount			-	306,488	-	306,488	-
Wayne Country CSO Revenue Bonds							
Amount of issue: \$16,300,000	5.295% -	\$755,000 -					
Maturing through 2017	5.375%	\$1,260,000	10,850,000	-	(10,850,000)	-	-
Less unamortized loss on bond refunding			-	(146,488)	-	(146,488)	-
Total county contractual agreements			13,654,720	10,904,200	(11,067,917)	13,491,003	1,071,505
<u>General obligation debt</u>							
State Revolving Fund Loan - CSO							
Amount of issue: \$5,856,984		\$235,000 -					
Maturing through 2018	2.25%	\$356,984	3,748,131	73,853	(280,000)	3,541,984	285,000
Accumulated sick, vacation, and other days			70,291	-	(17,156)	53,135	-
Total business-type activities			\$ 17,473,142	\$ 10,978,053	\$ (11,365,073)	\$ 17,086,122	\$ 1,356,505
Total governmental and business-type activities			\$ 27,609,374	\$ 14,944,033	\$ (14,070,274)	\$ 28,483,133	\$ 2,988,849
<b>Component Unit</b>							
<u>General obligation debt</u>							
EDC note payable							
Amount of issue: \$90,000		\$5,474 -					
Maturing through 2013	7.00%	\$58,628	\$ 83,017	\$ -	\$ (13,103)	\$ 69,914	\$ 5,870

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations (excluding amortization of bond issuance costs and discounts) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 226,376	\$ 300,515	\$ 526,891	\$ 1,356,505	\$ 1,056,989	\$ 2,413,494
2010	230,608	291,789	522,397	1,364,143	594,606	1,958,749
2011	240,063	282,389	522,452	1,415,831	538,932	1,954,763
2012	199,962	272,334	472,296	1,472,506	480,922	1,953,428
2013	200,510	264,453	464,963	1,530,080	420,363	1,950,443
2014-2018	920,000	1,206,369	2,126,369	8,507,958	8,507,959	17,015,917
2019-2023	1,145,000	973,050	2,118,050	891,342	115,147	1,006,489
2024-2028	1,455,000	652,625	2,107,625	329,621	39,173	368,794
2029-2033	1,855,000	241,375	2,096,375	5,001	-	5,001
Total	<u>\$ 6,472,519</u>	<u>\$ 4,484,899</u>	<u>\$ 10,957,418</u>	<u>\$ 16,872,987</u>	<u>\$ 11,754,091</u>	<u>\$ 28,627,078</u>

	Component Unit		
	Principal	Interest	Total
2009	\$ 5,870	\$ 5,242	\$ 11,112
2010	6,294	4,818	11,112
2011	6,749	4,363	11,112
2012	<u>51,001</u>	<u>2,645</u>	<u>53,646</u>
Total	<u>\$ 69,914</u>	<u>\$ 17,068</u>	<u>\$ 86,982</u>

### Note 8 - Restricted Assets

The City has assets of \$4,467,474 held at Wayne County that are restricted for debt payments related to the Downriver Sewage Disposal System project.

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for fleet, dishonesty, boiler, and medical benefits. The City is partially self-insured for general liability claims and uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Risk Management (Continued)

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. In addition, the City estimates the general liability claims that are in excess of its aggregate limits. Changes in the estimated liability for the past two fiscal years were as follows:

	Hospitalization	General Liability
Estimated liability - June 30, 2006	\$ 300,000	\$ 313,000
Estimated claims incurred, including changes in estimates	2,712,529	194,386
Claim payments	(2,577,529)	(125,386)
Estimated liability - June 30, 2007	435,000	382,000
Estimated claims incurred, including changes in estimates	2,106,116	(20,133)
Claim payments	(2,216,116)	(86,867)
Estimated liability - June 30, 2008	\$ 325,000	\$ 275,000

### Note 10 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 214 retirees or surviving spouses are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. During the year ended June 30, 2008, the amount paid for postemployment healthcare benefits approximated \$662,000.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will require the City to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement will also require additional footnote disclosures on actuarial values of the postemployment benefits. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 11 - Defined Benefit Pension Plan**

#### **General Employees' Retirement Plan**

**Plan Description** - The General Employees' Retirement Plan is a single-employer defined benefit pension plan that is administered by the City of River Rouge General Employees' Retirement System (the "System"); this plan covers most full-time general employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 115 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 44 current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. State law requires that the City fund its pension annually. Due to the City's financial condition, it was unable to make the required contributions for the year ended June 30, 2008. During the 2008 fiscal year, the pension board obtained a court order against the City to recoup the unpaid contributions. The net present value of unpaid pension obligation has been recorded in the governmental activities long-term debt at June 30, 2008.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent for General and Housing Local 1917 and 6.3 percent for all others. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.



# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2008, the City was required to make a contribution to the pension plan of \$1,364,333. The City's actual contribution of \$96,424 was 7.07 percent of the required contribution. The net pension obligation of the City is calculated as follows:

#### GERS - Annual Pension Cost

Annual required contribution	\$ 1,364,377
Contributions made	<u>(1,294,267)</u>
Change in net pension obligation	70,110
Net pension obligation - Beginning of year	<u>1,188,180</u>
Net pension obligation - End of year	<u><u>\$ 1,258,290</u></u>

The annual required contribution was determined as part of an actuarial valuation at June 30, 2006 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 0 percent per year, and (c) 5.7 percent to 9.5 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 10 years.

**Reserves** - As of June 30, 2008, the plan had employee reserves of \$1,404,694 and retiree pension reserves of \$10,289,790.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 1,364,377	\$ 1,279,969	\$ 1,037,700
Percent of APC contributed	94.86%	71.63%	98.02%
Net pension obligation	\$ 1,258,290	\$ 1,188,180	\$ 825,102

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2006	2005	2004
General Employees' Retirement System:			
Actuarial value of assets	\$ 11,034,571	\$ 11,769,369	\$ 13,347,221
Actuarial accrued liability (AAL)	\$ 21,664,441	\$ 21,216,171	\$ 21,253,637
Unfunded AAL (UAAL)	\$ 10,629,870	\$ 9,446,802	\$ 7,906,416
Funded ratio	50.93%	55.47%	62.80%
Covered payroll	\$ 1,320,656	\$ 1,850,005	\$ 1,803,584
UAAL percentage of covered payroll	804.89%	510.64%	438.37%

#### **Policemen and Firemen Retirement System**

**Plan Description** - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the City of River Rouge Policemen and Firemen Retirement System; this plan covers certain police and fire employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 99 retirees and beneficiaries currently receiving benefits and 31 current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. State law requires that the City fund its pension annually. Due to the City's financial condition, it was unable to make the required contributions for the year ended June 30, 2008. During fiscal year 2008, the pension board obtained a court order against the City to recoup the unpaid contributions. The net present value of unpaid pension obligation has been recorded in the City's governmental activities long-term debt at June 30, 2008.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2008, the City's annual pension cost was \$1,438,731. The City's actual contribution of \$178,497 was 12.41 percent of the required contribution. The net pension obligation of the City is calculated as follows:

#### PFRS - Annual Pension Cost

Annual required contribution	\$ 1,438,731
Contributions made	<u>(1,242,458)</u>
Change in net pension obligation	196,273
Net pension obligation - Beginning of year	<u>1,063,961</u>
Net pension obligation - End of year	<u>\$ 1,260,234</u>

The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the aggregate cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 0 percent per year, and (c) 4.7 percent to 8.5 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

**Reserves** - As of June 30, 2008, the plan had employee reserves of \$1,575,461 and retiree pension reserves of \$21,060,467.

#### Trend Information

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 1,438,731	\$ 1,259,487	\$ 1,081,333
Percent of APC contributed	86.36%	65.14%	97.86%
Net pension obligation	\$ 1,260,234	\$ 1,063,961	\$ 624,896

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2006	2005	2004
Police and Fire Retirement System:			
Actuarial value of assets	\$ 26,086,231	\$ 26,459,552	\$ 27,881,044
Actuarial accrued liability (AAL)	\$ 43,204,571	\$ 40,678,801	\$ 37,097,954
Unfunded AAL (UAAL)	\$ 17,118,340	\$ 14,219,249	\$ 9,216,910
Funded ratio	60.38%	65.05%	75.16%
Covered payroll	\$ 2,389,018	\$ 2,710,785	\$ 2,855,741
UAAL percentage of covered payroll	716.54%	524.54%	322.75%

**Financial Statement Information** - As of June 30, 2008, the statements of net assets for the General Employees' Retirement System and Police and Fire Retirement System are as follows:

	Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 904,482	\$ 1,256,860	\$ 2,161,342
Investments:			
Corporate stock	5,811,423	17,488,689	23,300,112
Mutual funds	1,106,960	-	1,106,960
Corporate bonds	422,492	2,925,794	3,348,286
International bonds	-	270,753	270,753
U.S. government agency bonds	614,582	1,975,185	2,589,767
Mortgage and asset-backed securities	719,756	782,034	1,501,790
Total investments	8,675,213	23,442,455	32,117,668
Due from Police and Fire Retirement System	3,084	-	3,084
Due from primary government	-	24,161	24,161
Accrued interest receivable	20,076	43,596	63,672
Total assets	9,602,855	24,767,072	34,369,927
<b>Liabilities</b>			
Due to General Employees' Retirement System	-	3,084	3,084
Due to brokers	(18,830)	72,959	54,129
Total liabilities	(18,830)	76,043	57,213
<b>Net Assets</b> - Reserved for retirement funds	\$ 9,621,685	\$ 24,691,029	\$ 34,312,714

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Defined Benefit Pension Plan (Continued)

As of June 30, 2008, the statement of changes in net assets for the General Employees' Retirement System and Police and Fire Retirement System is as follows:

	Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ (21,225)	\$ 741,255	\$ 720,030
Net decrease in fair value of investments	(635,413)	(3,068,032)	(3,703,445)
Less investment expenses	(122,114)	(284,823)	(406,937)
Other	1,424	-	1,424
Net investment income	(777,328)	(2,611,600)	(3,388,928)
Contributions:			
Employer	1,348,871	1,291,656	2,640,527
Employees	71,850	128,725	200,575
Total contributions	1,420,721	1,420,381	2,841,102
Total additions	643,393	(1,191,219)	(547,826)
<b>Deductions</b>			
Benefit payments	2,111,752	2,906,982	5,018,734
Administrative expenses	78,086	8,275	86,361
Total deductions	2,189,838	2,915,257	5,105,095
<b>Net Change in Net Assets</b>	(1,546,445)	(4,106,476)	(5,652,921)
<b>Net Assets - Beginning of year</b>	11,168,130	28,797,505	39,965,635

### Supplemental Information

The required supplemental information presented directly following the notes to the financial statements contained in the combining and individual fund section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

### **Note 12 - Defined Contribution Pension Plan**

The City provides pension benefits to its full-time employees and elected officials through a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council through collective bargaining agreements, the City contributes 9 percent of the employees' gross earnings and employee contributions for each employee plus interest allocated to the employees' account are immediately vested.

The City's total payroll during the current year was approximately \$4,846,000. The current year contribution was calculated based on covered payroll of \$836,233, resulting in an employer contribution of \$75,261 and employee contributions of \$41,812.

### **Note 13 - Contingencies**

#### **Lawsuits and Asserted Claims**

The City is a defendant in several lawsuits and asserted claims. A provision of \$275,000 has been made in the government-wide statement of net assets for the estimated liability for certain of these lawsuits (see Note 9). Management and legal counsel believe the City's ultimate exposure with respect to the remaining actions is not determinable. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

#### **Property Tax Appeal**

In March 2002, the City's largest taxpayer, National Steel - Great Lakes Division, filed Chapter 11 bankruptcy and was ultimately sold in 2002 to U.S. Steel Corporation. U.S. Steel Corporation has filed a petition with the tax tribunal requesting a reduction in its assessed and taxable valuation for the December 2002 through 2007 tax years (affecting the City's July 2003 through June 2008 fiscal years) based on the purchase price paid in the bankruptcy sale. U.S. Steel Corporation is requesting a reduction of approximately 60 percent from the value set by the City. The City believes its valuation is correct and is fighting the appeal.

# City of River Rouge, Michigan

## Notes to Financial Statements June 30, 2008

### Note 13 - Contingencies (Continued)

If U.S. Steel Corporation is successful, the City would have refund obligations as follows:

	Annual Refund Contingency Retroactive to Fiscal Year	
	2004	2005
Operating levies:		
General Fund	\$ 1,150,000	\$ -
EDC	8,600	-
Refuse	173,000	-
Library	35,000	-
Judgment levies:		
Enterprise Fund	363,000	-
General Fund	-	273,000

Based on the above, the total possible refund through June 30, 2008 totals \$9,740,000. The case was heard before the Michigan Tax Tribunal during the fall of 2006 with a final decision due in the 2009 fiscal year. No amounts have been recorded in the financial statements at June 30, 2008.

### Note 14 - Insurance Premiums Commitment

In May 2008, the City became aware that its insurance agent, responsible for employee and retiree prescription and other benefits, was collecting the monthly premiums from the City and not remitting them to the insurance companies. The unpaid premiums total approximately \$1.4 million. The insurance companies have filed a claim against the City for the unpaid premiums and the City is attempting to recover the same amount from the agent. The City recorded the premiums as expenditures as they were paid to the agent and no additional amounts have been included in the financial statements at June 30, 2008.

### **Note 15 - Going Concern/Management's Plans**

Despite two years in a row of having net revenues in excess of expenditures (approximately \$235,000 and \$275,000 for June 30, 2006 and 2007, respectively), the City continues to have a significant unreserved, undesignated fund deficit in the General Fund. The City prepared a formal deficit reduction plan and submitted it to the State of Michigan Department of Treasury (the State) in March 2008. The plan outlined the significant financial progress the City has made in recent years through substantial staff reductions, including some through early-out retirement incentives, sale of City property, and cost reductions through negotiations of open employment contracts. The State did not certify the City's plan because it did not provide adequate assurances that the deficit would be eliminated. The State did conclude from the City's plan that it appeared to be doing all it can and is making progress on eliminating the cumulative deficit. As a result, the State did not take any additional actions against the City that could have included withholding of revenue sharing or appointment of an emergency financial manager (as prescribed under Section 12(1) of Public Act 72 of 1990). In fiscal year 2008, the City was granted a judgment levy for its pension contribution. This has resulted in additional revenue of approximately \$2,300,000 per year.

The City is in a unique situation compared to most communities in that it receives over 50 percent of its property tax revenues from two taxpayers and over 65 percent of its property taxes are based on personal property. Therefore, the City of River Rouge, Michigan does not experience the typical inflationary increase in property tax revenues.

Because of the City's property tax base limitations, potential reductions in property tax revenues of the City's largest taxpayer (see Note 13), cuts in state revenue sharing, dramatic cutbacks made on the expenditure side over the past year, and the fact that the City is at its debt maximum, it is not in a position to make significant progress in eliminating its cumulative deficit. The long-term plan is to continue to maintain a balanced operating budget and, when it qualifies, apply for emergency financial loans to reduce the cumulative deficit.



### Note 16 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. During the current year, the City has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been added.
- Government-wide financial statements, prepared using full-accrual accounting for all of the City's activities, including infrastructure (roads, sidewalks, etc.), have been provided.
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include infrastructure assets (roads, sidewalks, etc.) which were previously reported in the General Fixed Assets Account Group. Governmental funds have reported infrastructure on a prospective basis.
- Capital assets at July, 1, 2007 previously reported in the General Fixed Assets Account Group have been adjusted to reflect the historical cost of the City's capital assets at that date
- The governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The equity funds now report net assets, rather than contributed capital and retained earnings; its income statement now focuses on the comprehensive change in net assets from the prior year.
- Governmental funds have not recorded depreciation on capital assets.

## **Required Supplemental Information**

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# City of River Rouge, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 9,335,099	\$ 9,732,717	\$ 9,496,536	\$ (236,181)
Licenses and permits	483,600	472,400	633,421	161,021
Federal sources	-	22,480	22,480	-
State sources	1,508,546	1,489,424	1,487,666	(1,758)
Charges for services	349,069	364,895	368,345	3,450
Fines and forfeitures	350,000	620,000	666,811	46,811
Interest	221,000	215,000	236,083	21,083
Proceeds from long-term debt	-	21,959	21,959	-
Reimbursement from other funds	190,000	190,000	208,617	18,617
Other	146,974	1,104,150	741,990	(362,160)
Total revenue	12,584,288	14,233,025	13,883,908	(349,117)
<b>Expenditures</b>				
General government:				
Legislative	49,500	49,500	49,500	-
District Court	295,740	343,218	326,455	16,763
City manager's office	142,121	161,304	161,010	294
Elections	13,000	25,100	14,558	10,542
Assessor	80,640	77,590	80,615	(3,025)
Legal	743,250	730,750	699,754	30,996
Clerk	74,250	84,031	82,300	1,731
Controller	37,355	27,708	24,990	2,718
Treasurer	124,003	124,190	130,175	(5,985)
Personnel	110,498	134,865	135,944	(1,079)
Insurance	3,359,062	3,221,898	2,787,353	434,545
Direct employee fringes	250,000	266,100	187,885	78,215
Pension programs	1,280,600	1,361,725	1,354,686	7,039
General administration	673,668	595,432	577,257	18,175
Total general government	7,233,687	7,203,411	6,612,482	590,929
Public safety:				
Police	1,543,071	2,196,112	2,190,047	6,065
Fire	1,113,165	1,475,755	1,452,393	23,362
Police and fire pension program	1,032,992	1,228,024	1,241,984	(13,960)
Total public safety	3,689,228	4,899,891	4,884,424	15,467

# City of River Rouge, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Amended Budget Favorable (Unfavorable)
<b>Expenditures (Continued)</b>				
Public works	\$ 565,788	\$ 846,663	\$ 826,396	\$ 20,267
Code enforcement	250,000	250,000	246,013	3,987
Recreation and culture	366,840	366,193	364,106	2,087
Community and economic development	20,500	35,500	38,852	(3,352)
Debt service	427,388	452,726	453,797	(1,071)
Transfers out to other funds	30,587	95,291	137,671	(42,380)
Transfers out to component units	-	49,163	49,177	(14)
Total expenditures	12,584,018	14,198,838	13,612,918	585,920
<b>Net Change in Fund Balances</b>	270	34,187	270,990	236,803
<b>Fund Balances (Deficit) - Beginning of year</b>	(1,935,254)	(1,935,254)	(1,935,254)	-
<b>Fund Balances (Deficit) - End of year</b>	<u><u>\$ (1,934,984)</u></u>	<u><u>\$ (1,901,067)</u></u>	<u><u>\$ (1,664,264)</u></u>	<u><u>\$ 236,803</u></u>

# City of River Rouge, Michigan

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## Note to Required Supplemental Information

### Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers out have been included in the “expenditure” category instead of “other financing uses” and reimbursements have been included in the “revenue” category, rather than as a reduction to expenditures. All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City’s management and adopted by the City Council; subsequent amendments are approved by the City Council.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures on an activity basis. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are in violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund is on this budget basis. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The budget process is initiated in April, when the finance department estimates the revenues, calculates salary and fringe benefit information, as well as estimates operating costs by department for the year. In May, the finance department discusses any critical needs identified by the department heads that need to be incorporated into the new budget. The finance department then meets with the mayor to determine the adjustments needed to balance the operating budget. The budget is submitted to the City Council in June. After a public hearing, the final budget is adopted by a resolution no later than June 30 of each year.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2008 has not been calculated.

# City of River Rouge, Michigan

## Note to Required Supplemental Information

### Note - Budgetary Information (Continued)

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of River Rouge, Michigan incurred general governmental expenditures within the General Fund that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance with Amended Budget
Assessor	\$ 77,590	\$ 80,615	\$ (3,025)
Personnel	134,865	135,944	(1,079)
Police and fire pension program	1,228,024	1,241,984	(13,960)
Transfers	49,163	49,177	(14)

In the assessor's department, the amount billed by the County for assessing services was greater than budgeted. In the personnel department, compensated absences payout to a retired employee was greater than budgeted. The police and fire pension program had judgment interest included in the contribution which was greater than budgeted. The City had unanticipated transfers to the Community Development Block Grant and Street Funds to cover cost overruns.

A reconciliation of the budgetary comparison schedule to the fund-based statement of changes in fund balance is as follows:

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 13,653,332	\$ 13,266,630
Operating transfers	-	137,671
Debt service	21,959	
Reimbursements from other funds	208,617	208,617
Amounts per budgetary comparison schedule	<u>\$ 13,883,908</u>	<u>\$ 13,612,918</u>

# City of River Rouge, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress

The schedule of funding progress is as follows (in millions):

### General Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
06/30/01	\$ 16,009,970	\$ 20,666,344	\$ 4,656,374	\$ 1,814,229	256.7%	77.5%
06/30/02	15,194,970	21,228,089	6,033,119	1,862,030	324.0%	71.6%
06/30/03	13,989,089	21,197,113	7,208,024	1,898,470	379.7%	66.0%
06/30/04	13,347,221	21,253,637	7,906,416	1,803,584	438.4%	62.8%
06/30/05	11,769,369	21,216,171	9,446,802	1,850,005	510.6%	55.5%
06/30/06	11,034,571	21,664,441	10,629,870	1,320,656	804.9%	50.9%

### Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
06/30/01	\$ 33,089,914	\$ 30,007,692	\$ (3,082,222)	\$ 3,250,571	-94.8%	110.3%
06/30/02	31,644,156	35,068,838	3,424,682	2,801,663	122.2%	90.2%
06/30/03	29,384,527	36,177,859	6,793,332	2,652,137	256.1%	81.2%
06/30/04	27,881,044	37,097,954	9,216,910	2,855,741	322.8%	75.2%
06/30/05	26,459,552	40,678,801	14,219,249	2,710,785	524.5%	65.0%
06/30/06	26,086,231	43,204,571	17,118,340	2,389,018	716.5%	60.4%

# City of River Rouge, Michigan

## Required Supplemental Information Pension System Schedule of Employer's Contributions June 30, 2008

The schedule of employer contributions is as follows:

### General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for	
		General Employees	Percentage Contribution
06/30/03	06/30/01	\$ 624,012	100.00%
06/30/04	06/30/02	813,219	100.00%
06/30/05	06/30/03	878,622	8.43%
06/30/06	06/30/04	1,037,700	98.02%
06/30/07	06/30/05	1,279,969	71.63%
06/30/08	06/30/06	1,364,333	94.86%

### Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for	
		General Employees	Percentage Contribution
06/30/03	06/30/01	\$ 387,491	100.00%
06/30/04	06/30/02	484,925	100.00%
06/30/05	06/30/03	793,154	24.14%
06/30/06	06/30/04	1,081,333	97.86%
06/30/07	06/30/05	1,259,487	65.14%
06/30/08	06/30/06	1,438,731	86.36%



# City of River Rouge, Michigan

## Required Supplemental Information Actuarial Assumptions June 30, 2008

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation date, is as follows:

### General Employees' Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level dollar, closed
Remaining amortization period	10 years, closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.50%
Projected salary increases**	5.7%-9.5%
** Includes inflation at cost of living adjustments	5.50%

### Police and Fire Retirement System

Actuarial cost method	Current method: Aggregate
Amortization method	Level percent of payroll
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.50%
Projected salary increases**	4.7%-8.5%
** Includes inflation at cost of living adjustments	4.50%

## **Other Supplemental Information**

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# City of River Rouge, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds						
	Major Streets Fund	Local Streets Fund	Refuse Fund	Drug Enforcement Fund	Library Fund	Grant Fund	Total Nonmajor Governmental Funds
<b>Assets</b>							
Cash and investments	\$ 91,031	\$ -	\$ 677,782	\$ 281,799	\$ 29,926	\$ 185,288	\$ 1,265,826
Due from other governmental units	60,460	22,801	-	-	-	44,806	128,067
Total assets	<u>\$ 151,491</u>	<u>\$ 22,801</u>	<u>\$ 677,782</u>	<u>\$ 281,799</u>	<u>\$ 29,926</u>	<u>\$ 230,094</u>	<u>\$ 1,393,893</u>
<b>Liabilities and Fund Balances (Deficit)</b>							
<b>Liabilities</b>							
Accounts payable	\$ 151,491	\$ 10,597	\$ 15,718	\$ 4,155	\$ 362	\$ 33,505	\$ 215,828
Due to other funds	-	12,204	-	-	-	183,004	195,208
Deferred revenue	-	-	-	-	-	58,390	58,390
Total liabilities	151,491	22,801	15,718	4,155	362	274,899	469,426
<b>Fund Balances (Deficit) - Unreserved</b>	-	-	662,064	277,644	29,564	(44,805)	924,467
Total liabilities and fund balances (deficit)	<u>\$ 151,491</u>	<u>\$ 22,801</u>	<u>\$ 677,782</u>	<u>\$ 281,799</u>	<u>\$ 29,926</u>	<u>\$ 230,094</u>	<u>\$ 1,393,893</u>

# City of River Rouge, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds						
	Major Streets Fund	Local Streets Fund	Refuse Fund	Drug Enforcement Fund	Library Fund	Grant Fund	Total Nonmajor Governmental Funds
<b>Revenue</b>							
Property taxes	\$ -	\$ -	\$ 684,405	\$ -	\$ 205,310	\$ -	\$ 889,715
Federal sources	-	-	-	97,147	-	307,229	404,376
State sources	393,109	139,146	-	91,038	34,342	-	657,635
Interest income	843	49	37,870	7,155	4,923	-	50,840
Other	-	-	-	-	-	3,076	3,076
Total revenue	393,952	139,195	722,275	195,340	244,575	310,305	2,005,642
<b>Expenditures</b>							
Public safety	-	-	-	171,913	-	-	171,913
Public works	429,707	241,579	1,230,615	-	-	-	1,901,901
Recreation and cultural	-	-	-	-	240,729	-	240,729
Community and economic development	-	-	-	-	-	316,017	316,017
Debt service	-	-	40,000	-	-	-	40,000
Total expenditures	429,707	241,579	1,270,615	171,913	240,729	316,017	2,670,560
<b>Excess of Revenue Over (Under) Expenditures</b>	(35,755)	(102,384)	(548,340)	23,427	3,846	(5,712)	(664,918)
<b>Other Financing Sources (Uses)</b>							
Proceeds from long-term debt	-	-	201,000	-	-	-	201,000
Transfers in	9,602	102,384	-	-	-	27,167	139,153
Transfers out	(1,482)	-	-	-	-	-	(1,482)
Total other financing sources	8,120	102,384	201,000	-	-	27,167	338,671
<b>Net Change in Fund Balances</b>	(27,635)	-	(347,340)	23,427	3,846	21,455	(326,247)
<b>Fund Balances (Deficit) - Beginning of year</b>	27,635	-	1,009,404	254,217	25,718	(66,260)	1,250,714
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,064</u>	<u>\$ 277,644</u>	<u>\$ 29,564</u>	<u>\$ (44,805)</u>	<u>\$ 924,467</u>

# City of River Rouge, Michigan

## Other Supplemental Information Combining Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2008

	Agency Funds		
	26th District Court Division I	Tax Collection	Total
<b>Assets - Cash and cash equivalents</b>	<b>\$ 92,810</b>	<b>\$ 168,776</b>	<b>\$ 261,586</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 168,776	\$ 168,776
Due to primary government	19,036	-	19,036
Due to other governmental units	11,701	-	11,701
Deposits and other liabilities	62,073	-	62,073
Total liabilities	<b>\$ 92,810</b>	<b>\$ 168,776</b>	<b>\$ 261,586</b>

# City of River Rouge, Michigan

## Other Supplemental Information Combining Balance Sheet Component Units June 30, 2008

	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets</b>			
Cash and investments	\$ 189,829	\$ 46,825	\$ 236,654
Accounts receivable	8,638	-	8,638
Due from primary government	5,385	-	5,385
Total assets	203,852	46,825	250,677
<b>Liabilities</b>			
Accounts payable	-	3,850	3,850
Accrued and other liabilities	13,144	-	13,144
Total liabilities	13,144	3,850	16,994
<b>Fund Balance - Unrestricted</b>	<b>\$ 190,708</b>	<b>\$ 42,975</b>	<b>\$ 233,683</b>

# City of River Rouge, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Component Units Year Ended June 30, 2008

	Economic Development Corporation	Downtown Development Authority	Total Component Unit
<b>Revenue</b>			
Property taxes	\$ -	\$ 29,138	\$ 29,138
Charges for services	266,978	-	266,978
Interest	1,715	1,824	3,539
Other	45,805	-	45,805
Total revenue	314,498	30,962	345,460
<b>Expenditures</b>			
Community and economic development	345,690	111,783	457,473
Debt service	18,602	-	18,602
Total expenditures	364,292	111,783	476,075
<b>Net Change in Fund Balances</b>	(49,794)	(80,821)	(130,615)
<b>Fund Balances</b> - Beginning of year	240,502	123,796	364,298
<b>Fund Balances</b> - End of year	<u>\$ 190,708</u>	<u>\$ 42,975</u>	<u>\$ 233,683</u>



**GREGORY  
TERRELL  
& COMPANY**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor  
and Members of the City Council,  
City of River Rouge, Michigan

We have audited the basic financial statements of the City of River Rouge, Michigan (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit of the basic financial statements of the City for the year ended June 30, 2008, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's general purpose financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.



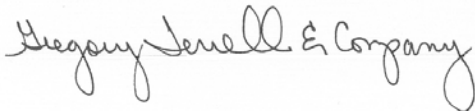
A material weakness is a significant deficiency or a combination of significant deficiencies that result in more than a remote likelihood that a material misstatement of the general purpose financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor, City Council, and the State of Michigan, Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY  
Certified Public Accountants

December 29, 2008